



U.S. Department of Agriculture



Office of Inspector General  
Great Plains Region

# **Audit Report**

**Food and Nutrition Service  
National School Lunch Program  
Unified School District 497  
Lawrence, Kansas**

**Report No. 27010-14-KC  
March 2004**



UNITED STATES DEPARTMENT OF AGRICULTURE  
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DATE: March 26, 2004

REPLY TO  
ATTN OF: 27010-14-KC

SUBJECT: National School Lunch Program – Unified School District 497,  
Lawrence, Kansas

TO: Darlene Barnes  
Regional Administrator  
Food and Nutrition Service  
1244 Speer Boulevard, Suite 903  
Denver, CO 80204

This report presents the results of the subject audit. Your written response, dated March 11, 2004, to the official draft report has been incorporated into the Findings and Recommendations section of the report, where appropriate. The text of the response is attached as exhibit B. Your reply expressed agreement with the recommendations; however, we were unable to reach management decisions on any of the recommendations. The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1, 2, 3, and 4. In general, we will need to be advised of the specific actions completed or planned along with acceptable dates for completing the proposed actions.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for accomplishing final action. Please note that the regulation requires management decisions to be reached on all findings and recommendations within 6 months from the date of report issuance, and final action should be completed within 1 year of management decision.

We appreciate the assistance provided to us during our review.

/s/

DENNIS J. GANNON  
Regional Inspector General  
for Audit

# ***Executive Summary***

## ***Food and Nutrition Service, National School Lunch Program, Unified School District 497, Lawrence, Kansas (Audit Report No. 27010-14-KC)***

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### **Results in Brief**

This report presents the results of our audit of the National School Lunch Program (NSLP) and School Breakfast Program (SBP), as administered by Unified School District 497, Lawrence, Kansas, the local school food authority (SFA). The Kansas State Department of Education served as the State agency, and the United States Department of Agriculture's (USDA) Food and Nutrition Service (FNS) served as the funding agency. For school year 2001/2002 operations, the SFA received over a million dollars in FNS reimbursement and about \$40,000 in State agency reimbursement.

We began our audit of the SFA in January 2003. Our objectives were to evaluate FNS' controls over the administration of the NSLP/SBP and the accounting systems, and the SFA's meal accountability, procurement, and management controls that were designed to provide reasonable assurance as to the accuracy of its meal claims and reimbursement for school years 2001/2002 and 2002/2003 through December 31, 2002. Our tests of procurement activities did not identify any reportable conditions.

However, we found weaknesses existed in the SFA's internal controls over timely submitting claims for and receipt of Federal and State reimbursements (including timely processing cash receipts), approving and recording expenses, monitoring cash needs, and accurately reporting financial operations to the State agency. Specifically, the SFA had a history of not properly filing and following up on claims for reimbursement. For example, the district was unaware it had not received reimbursement payments totaling about \$227,200 for its August and October 2001 claims for reimbursement. Subsequently, the SFA received \$141,600 in reimbursement, but because of Federal regulations limiting the conditions where underclaims can be corrected, the SFA could not receive approximately \$85,600 of Federal reimbursement. In addition, there were delays in processing transactions, and central office and school lunch personnel had difficulty in communicating the effect of transactions related to the food service account.

For two of the schools reviewed, the SFA did not follow the approved collection and accountability procedures, as stated in the program agreement with the State agency.

The report also contains a general comment that the SFA's accounting procedures did not include crediting a prorated share of interest earned from investments.

**Recommendations  
In Brief**

We recommend that FNS require the State agency to direct the SFA to implement various management and internal controls over aspects of the accounting system. We recommend that FNS require the State agency to provide the SFA with procedures to correct the internal control weaknesses (1) over making claims and receiving Federal and State reimbursements, (2) approving and recording expenses, (3) monitoring cash needs, and (4) accurately reporting financial operations to the State agency.

**FNS Response**

Although the agency response showed that FNS officials concurred with the recommendations; it did not provide sufficient information to reach management decisions on any of them. In its response, FNS disagreed with including the monetary amount for one claim paid by the State agency as an underclaim in exhibit A. We incorporated their comments in the applicable sections of the report and attached a copy of the comments as exhibit B.

**OIG Position**

The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1, 2, 3, and 4. In order to reach management decisions, we will need to be advised of the specific actions completed or planned along with acceptable timeframes for completing the proposed actions. In regard to FNS' position that the cited underclaim amount is a programmatic matter and not a financial finding, we continue to believe that the amount is correctly classified as an underclaim in exhibit A under our policies for reporting monetary results.

### ***Abbreviations Used in This Report***

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Act	Richard B. Russell National School Lunch Act
CFR	Code of Federal Regulations
FNS	Food and Nutrition Service
NSLP	National School Lunch Program
OIG	Office of Inspector General
POS	Point of Service
SBP	School Breakfast Program
SFA	School Food Authority
SFSP	Summer Food Service Program
USDA	United States Department of Agriculture

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# ***Background and Objectives***

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## **Background**

On June 4, 1946, Congress passed the National School Lunch Act,<sup>1</sup> now the Richard B. Russell National School Lunch Act (Act), which authorizes Federal school lunch assistance. The intent of the Act, as amended December 29, 2001, is to safeguard the health and well-being of the Nation's children by providing them with nutritious foods and to encourage the domestic consumption of nutritious agricultural commodities and other foods. This is accomplished by assisting States, through grants-in-aid and other means, in providing an adequate supply of food and facilities for the establishment, maintenance, operation, and expansion of nonprofit school lunch programs.

The Act, as amended, authorizes the payment of general and special assistance funds to States based upon the number and category of lunches served. Section 4 of the Act authorizes general cash assistance payment for all lunches served to children in accordance with the provisions of the National School Lunch Program (NSLP) and additional special cash assistance for lunches served under the NSLP to children determined eligible for free or reduced-price lunches. The States are reimbursed at various rates per lunch, depending on whether the child was served a free, reduced-price, or full-price (paid) lunch. Eligibility of children for free or reduced-price lunches is based upon their family's household size and income, as listed in the Food and Nutrition Service (FNS) Income Eligibility Guidelines, which are reviewed annually.

FNS is the United States Department of Agriculture (USDA) agency responsible for administering the NSLP/School Breakfast Program (SBP). FNS has seven regional offices nationwide. The FNS Mountain Plains Regional Office, located in Denver, Colorado, is responsible for monitoring and overseeing operations in Kansas. The Kansas State Department of Education serves as the State agency and is responsible for overseeing program operations within Kansas. The school food authority (SFA) located in Lawrence, Kansas, is responsible for operating the NSLP in accordance with regulations. Each State agency is required to enter into a written agreement with FNS to administer the NSLP/SBP and each State agency enters into agreements with SFAs to oversee day-to-day operations. The SFA administered the NSLP/SBP in 26 public schools.

The fiscal year 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Kansas State agency received approximately \$58 million for the NSLP and \$14 million for the SBP in Federal reimbursements for fiscal year 2002. For school year 2001/2002, Kansas provided State funds of approximately \$2.5 million to SFAs.

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<sup>1</sup> 42 U.S. Code 1751.

The general NSLP requirements are codified in Title 7, Code of Federal Regulations (CFR) 210. Requirements for determining eligibility for free and reduced-price meals and free milk are codified in 7 CFR 245. In accordance with 7 CFR 250, USDA also provides donated foods to SFAs to assist in operating the nonprofit lunch program. The Kansas State agency provides cash in lieu of actual commodities to each public school participating in the NSLP/SBP. Generally, schools must collect applications on an annual basis from households of enrolled children and make annual determinations of their eligibility for free or reduced-price meals. These schools must also count the number of free, reduced-price, and paid meals served at the point of service (POS) on a daily basis.

## **Objectives**

The objectives of our review were to evaluate controls over the administration of the NSLP/SBP. We evaluated policies and procedures over meal accountability and oversight of program operation. To accomplish this, we evaluated (1) the accounting for the SFA's school food service account, (2) the accuracy of collections and accounting for reimbursed meals, and (3) the accounting and use of program funds relating to the SFA's procurement of goods and services.



# ***Findings and Recommendations***

## ***Section 1. Accounting and Controls Over School Lunch Funds Should Be Improved***

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Weaknesses existed in the SFA's internal controls over submitting claims for and receipt of Federal and State reimbursements, approving and recording expenses, monitoring cash needs, and accurately reporting financial operations to the State agency. Specifically, the SFA had a history of not properly filing and following up on claims for reimbursement and we identified 7 months since the 1999/2000 school year where some type of delay occurred in receiving the claim for reimbursement. After being made aware of the condition, the SFA never took adequate action to correct this weakness, and the SFA was unaware it had not received reimbursement payments totaling about \$227,200 for its August and October 2001 claims for reimbursement. Because of Federal regulations limiting the conditions where underclaims can be corrected, the SFA could not receive approximately \$85,600 of Federal reimbursement. In addition, there were delays in processing transactions, and central office and school lunch personnel had difficulty in communicating the effect of transactions related to the food service account.

Federal regulations<sup>2</sup> require that internal controls must maintain effective control and accountability for all grants and subgrants, cash, real and personal property, and other assets. The grantee and subgrantees must adequately safeguard all such property and assure that it is used solely for the authorized purposes.<sup>3</sup> Federal regulations<sup>4</sup> also state that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

State Agency guidelines<sup>5</sup> state the SFA should answer the following questions to ensure the district has proper controls and knows the strengths and weaknesses of the food service program:

- Are receipts and expenditure reports, as well as profit and loss statements, prepared monthly?

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<sup>2</sup> 7 CFR 3016.20(b)(3).

<sup>3</sup> FNS officials noted that the Federal requirements for the SFA to assure the accuracy of the reimbursement claim, including the specific edits and procedures to be followed to help assure this accuracy, are the sole "controls" or checks that are specifically set forth for SFAs to follow.

<sup>4</sup> 7 CFR 3016.20(b)(2).

<sup>5</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

- Are monthly expenses and revenues compared with prior month's and year's totals?
- Are frequent audits conducted to ensure the accuracy of reported information (revenue totals reflect cash sales and accurate claims for reimbursement and expenses reflect only allowable costs)?

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**Finding 1****Lack of Oversight of Claims Process**

The SFA did not timely receive reimbursement payments for 7 months. This occurred because the food service office did not effectively monitor the filing and payment receipt or collection process of the monthly claims for reimbursement to ensure timely reimbursements were made to the food service account. As a result, during the 2001/2002 school year, the SFA did not receive reimbursement payments for 2 months that would have totaled about \$227,200, because they were not submitted timely and were therefore barred from reimbursement under Federal requirements (without a special authorized one-time exception).<sup>6</sup> Similarly, there were five instances where there were delays in submitting or receiving reimbursements totaling about \$353,000 for November 1999 through March 2000.

Federal regulations<sup>7</sup> state a final claim for reimbursement shall be postmarked or submitted to the State agency not later than 60 days following the last day of the full month covered by the claim. Regional office guidance<sup>8</sup> states for late claims, a local agency or sponsor may be granted a one-time exception if it has not been granted such an exception for a claim month occurring in the 36-month period previous to the late claim under consideration.

Before starting fieldwork at the SFA, we requested the State to provide independent verification of the claims for reimbursement for July 2001 through December 2002. While providing this information, a State official discovered they did not show paying any claims to the SFA for August and October 2001. The State agency then notified the SFA and action was taken to authorize payment of the October 2001 claim for \$141,600 after its claims had been submitted by the SFA. This payment was deposited to the SFA's general account in February 2003. A State agency official stated the August 2001 claim for \$85,600 could not be paid due to Federal requirements.

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<sup>6</sup> FNS 60/90 Day Reporting For Child Nutrition Programs, dated August 2001.

<sup>7</sup> 7 CFR 210.8(b)(1).

<sup>8</sup> FNS Mountain Plains Regional Office guidance, dated November 8, 1993.

The SFA food service director said that they did not have any controls to monitor each month's potential claim to ensure it was timely filed and paid.

There were several factors contributing to the late payments. For example, the SFA had consolidated the August 2001 claim with the September 2001 claim. However, the State agency did not allow the consolidated claim because there were more than 10 operating days in August.<sup>9</sup> State files showed the SFA resubmitted the September claim, but there was no record that the SFA ever resubmitted the August 2001 claim totaling about \$85,600 for Federal reimbursement.

Concerning the October 2001 claim, an SFA employee said they had prepared the claim; however, the State agency told the SFA they had no record of receiving it. In addition, the SFA could not provide adequate documentation to prove the claim was timely submitted.

We expanded our review to include the 1999/2000 school year. We found that the SFA's claims for reimbursement, totaling about \$353,000 for November through March, were not received until July 2000. A State agency official stated the SFA apparently faxed the claims for reimbursement to the State agency; however, the State agency had no record of receiving the original claims. The State agency determined there was a hardware problem between the State agency and the SFA fax machines and paid the claims as timely filed. The State agency subsequently instructed the SFA to mail a hard copy of the claims for reimbursement when they were faxed to the State agency to ensure the State agency received the claims. However, this practice, if implemented, was not sufficient to prevent the errors from recurring.

The food service director stated that delays and weaknesses in the finance office contributed to the inability to identify that some claims had not been received. The food service director noted that the finance office had a high turnover in personnel during that period, and the district hired a potential Chief Executive Officer, but that employment ended after a few months. We believe the previous errors should have alerted the SFA to establish procedures to closely monitor the timely filing of the claims for reimbursement and the prompt receipt of the funds.

FNS personnel stated the missing claims for reimbursement under question were simply nonpayable, even as an option, by the State agency and FNS took the position that no amounts should be shown in exhibit A. We have provided additional information in exhibit A why we continued to reflect \$141,600 as an underclaim.

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<sup>9</sup> 7 CFR 210.8(c)(1) states if the first or last month of program operations for any school year contains 10 operating days or less, such month may be combined with the claim for reimbursement for the appropriate adjacent month.

## **Recommendation No. 1**

Instruct the State agency to require the SFA to implement control procedures to monitor filing of the monthly claims and receipt of reimbursement. Require the State agency to verify the SFA has properly implemented the procedures.

### **FNS Response.**

FNS concurred with Recommendation No. 1. However, FNS noted that the report also includes exhibit A, Summary of Monetary Results, where the sum of \$141,600 is cited as an underclaim. This figure represents the dollar value of the school district's reimbursement claim for October 2001. As the report notes, this reimbursement claim was not submitted timely by the SFA to the State agency and, therefore, the FNS noted that the amount cited was not liable for payment to the district under USDA-FNS policy and guidance. The State agency, however, under provisions of this same FNS policy and guidance, decided to grant the district's request for a "one-time exception" to the claim reporting deadline requirements, so as to permit the State agency to pay this claim, which it was otherwise not liable to pay. While we do note that the narrative report does not require any action to be taken in reference to this monetary amount, we take issue with the inclusion by OIG of this finding as a monetary finding. We maintain that this was a programmatic matter, not a financial finding. The State's action was fully, and correctly, within its purview.

### **OIG Position.**

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed. In regard to FNS' position that the cited amount should not be shown as an underclaim in exhibit A, we recognize that the State agency actions to grant the SFA's claim request in one case and deny its other request for claim were within its purview. We are not taking exception to the actions taken by the State agency. Rather, we have shown this amount as an underclaim because the SFA submitted its claims for reimbursement as a result of actions the State agency had taken in providing information we requested for this audit and the SFA had received its reimbursement from the State Agency for the cited untimely claim. Under our reporting policies, the amount is most accurately reported under this classification. Therefore, our position on classification of this amount in exhibit A remains unchanged.

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**Finding 2****Food Service Accounts Not Promptly Credited for Reimbursements**

The SFA did not promptly credit the food service checking account for monthly State agency reimbursement payments deposited into the school's general account. This occurred because the SFA's established procedures delayed the crediting of the food service checking account, and the exchange of information was insufficient to provide needed information to the food service director. As a result, the SFA food service director was unaware of whether claims for reimbursement had been received (see Finding No. 1). In addition, without current cash balance information, the food service director could not accurately prepare the monthly reports.

State agency guidelines<sup>10</sup> require all monies received by the SFA for the food service program to be credited to the food service fund.

An SFA official stated all assistance from the various State sources was combined and sent in one wire transfer to the school's general account. The SFA used established procedures that delayed the crediting of the food service account. For example, finance office officials normally waited for the Superintendent's office to advise them of a claimed reimbursement, verified receipt of the reimbursement with the bank, and completed a bank reconciliation before crediting the funds to the food service account. We found that the lag time of the transfer from the general account to the food service account was generally 1 to 2 months. However, the lag time for one transfer was over 3 months. The school finance director attributed the delays in transfers to lack of staff and delays in receiving documents from the Superintendent's office.

There are alternatives to the school's current process, which would allow the funds to be immediately credited to the food service account. We were told that the school food service director could obtain the approved reimbursement amount from the State agency web site instead of waiting for the school Superintendent's office to advise the school finance office of the reimbursement received. In addition, there had been discussions of allowing the school food service director to review the deposits to the general fund bank account online; however, the necessary online bank access for the food service director had never been completed.

**Recommendation No. 2**

Require the State agency to instruct the SFA to implement procedures and internal controls to promptly credit reimbursements to the food service account and to keep food service personnel fully informed of the status of

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<sup>10</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

the reimbursements. Have the State agency verify that the SFA has properly implemented the procedures.

### **FNS Response.**

FNS concurred with Recommendation No. 2.

### **OIG Position.**

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed.

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## **Finding 3**

### **Inadequate Controls Resulted in Inaccurate Accounting Transactions and Inaccurate Monthly and Annual Reports**

The SFA did not accurately complete the monthly and annual reports required by the State agency and did not accurately determine the cash position of the school lunch fund. This occurred because control procedures had not been established to timely record transactions, share accounting information, and accurately analyze data. The SFA personnel were not promptly completing the bank statement reconciliation to determine the unencumbered opening cash balance or reviewing the reports for accuracy. Also, SFA personnel misclassified some transactions. As a result, the unencumbered cash balance decreased by about \$256,000 between the opening and closing balances for school year 2001/2002 without adequate review by the SFA. In addition, the SFA overstated State sources and understated Federal sources by \$51,766 on the 2001/2002 Annual Financial Status Summary report to the State agency.

State agency guidelines<sup>11</sup> provide, essentially, that public school districts must complete a Monthly Financial Status Summary Form for each calendar month of the fiscal year, July through June, and keep the monthly forms on file with other School Nutrition Program documents. The Annual Financial Status Summary is to be submitted to the State agency by August 15.

State agency guidelines<sup>12</sup> state the SFA should answer the following questions to ensure the district has proper controls and knows the strengths and weaknesses of the food service program: Are receipts and expenditure reports, as well as profit and loss statements, prepared monthly? Are monthly expenses and revenues compared with prior month's and year's totals? Are frequent audits conducted to ensure the accuracy of reported information (revenue totals reflect cash sales and accurate claims for reimbursement and expenses reflect only allowable costs)?

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<sup>11</sup> Accountability and Record-Keeping for the School Nutrition Programs Handbook – July 2002.

<sup>12</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

- An SFA official stated a financial status summary report was prepared each month but it was not always accurate because the food service office relied on the school finance office to complete the bank reconciliation and provide the monthly unencumbered cash balance for the food service account. We found the school finance office did not timely report the unencumbered opening cash balance to the food service office so the monthly financial status summaries were completed as fully as possible to help prepare for the Annual Financial Status Summary report.
- The SFA was in violation with the cash basis accounting principles for allowing the unencumbered closing cash balance to become a negative balance on four of the monthly financial status summary reports.<sup>13</sup> We completed the monthly financial status summary reports based on the unencumbered opening cash balance noted on the 2001/2002 Annual Financial Status Summary report. We noted the unencumbered closing cash balance had a negative balance in December 2001 and January, March, and May 2002. If the food service office had effectively completed the monthly financial status summary reports, personnel would have been aware the food service fund was operating with a negative balance.

For example, we noted the unencumbered opening cash balance was about \$337,430 on July 1, 2001, and determined the unencumbered closing cash balance was about \$81,360 on June 30, 2002. There was a difference of about \$256,070 (\$337,430 - \$81,360) from the unencumbered opening cash balance to the unencumbered closing cash balance for the 2001/2002 school year. The error of not submitting the August and October 2001 claims for reimbursement to the State agency might have been avoided had the SFA followed the cash basis accounting principles and compared expenses and receipts with the previous periods (see Finding No. 1).

- The school finance office recorded workers compensation expenses as outstanding wire transfers in the school food service check register at the beginning of each school year, but did not actually complete the wire transactions until a later date.<sup>14</sup> For example, the school finance office did not complete the 2001/2002 school year wire transfer of \$55,204 for over 9 months. In addition, the 2002/2003 school year wire transfer of \$53,705 was outstanding for over 6 months. According to the finance office, the purpose of recording a wire transfer transaction was to make the food service office aware that, at a later date, a \$50,000 workers compensation expense would be incurred by the school lunch fund. However, the school finance office did not notify the food service office

<sup>13</sup> Accountability and Record-Keeping for the School Nutrition Programs Handbook – July 2002.

<sup>14</sup> By their very nature, wire transfers are normally immediate transfers of funds. The instruments for the transfers were not actually delivered to the bank until months later.

when the wire transfer was completed and the workers compensation invoice was paid.

- In addition, the SFA employees accounted for the Summer Food Service Program (SFSP) reimbursement under State sources instead of Federal sources on the 2001/2002 Annual Financial Status Summary report to the State agency. We obtained SFSP documentation for June and July 2000, 2001, and 2002. We determined the SFA overstated State and understated Federal sources on the 2001/2002 Annual Financial Status Summary report. The SFA incorrectly accounted for the SFSP payments of \$30,711 and \$21,055 for June and July 2001, respectively, as from State sources. However, the SFA received SFSP payment reimbursements only from Federal sources, not State sources. The SFA did not review the Annual Financial Status Summary report for accuracy. As a result, the SFA overstated State sources and understated Federal sources by \$51,766 (\$30,711 plus \$21,055).

### **Recommendation No. 3**

Require the State agency to instruct the SFA to develop procedures to (1) promptly complete bank statement reconciliations and the monthly financial status summary reports on a timely basis, (2) review financial status summary reports for accuracy and analyze reports to identify errors, (3) monitor cash flow without establishing outstanding wire transfers, and (4) properly account for SFSP reimbursements. Require the State agency to verify the SFA has implemented the procedures.

#### **FNS Response.**

FNS concurred with Recommendation No. 3.

#### **OIG Position.**

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed.



### **Finding 4**

### **Meal Accountability Procedures Were Not Followed**

Meal accountability procedures observed at two schools were not consistent with the program agreement. The schools were not following the State agency approved POS. The approved POS was identical for all schools, but many schools had different POS procedures that they followed. SFA officials said that they copied the Collection and Accountability Procedures Form from one year to the next without any adjustments or amendments specific to the manner individual schools actually operated the POS. There was reduced assurance the SFA claimed only the meals eligible for reimbursement because the SFA reported incorrect POS procedures to the State agency.

Federal regulations<sup>15</sup> require the SFA to enter into a written agreement with the State agency. State agency guidelines<sup>16</sup> state an authorized representative of the SFA will be responsible for assuring the local program is in compliance with the program agreement between the SFA and State agency and for reviewing and analyzing meal counts to ensure accuracy.

The program agreement for the Lawrence School District monitoring procedures stated, “The cashier monitors each tray at the end of the serving line.” The program agreement also states, “After students pass through the serving line, a cashier or teacher uses a coded roster to check-off or scan the name or number of each student served a reimbursable meal. The cashier uses the roster or the computer to determine the daily count by category.”

We found the actual procedures in practice differed from the approved procedures. At East Heights Elementary School, we observed the kitchen manager was responsible for tallying the number of students as they left the entrée line. However, there was a vegetable serving bar after the entrée line where students had an opportunity to serve themselves reimbursable meal components. SFA employees were not monitoring to verify that each meal claimed for reimbursement had all the required components. At Kennedy Elementary School, we observed a school employee sitting at the beginning of the breakfast line collecting scanable cards for the students entering the cafeteria while a food service employee stood at the end of the self-serving line to ensure each student had the components for a reimbursable meal. However, these procedures did not comply with the approved POS procedures.

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<sup>15</sup> 7 CFR 210.9(b).

<sup>16</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

During the review, the SFA correctly completed revised program renewal agreements for each school and submitted the revisions to the State agency.

#### **Recommendation No. 4**

Instruct the State agency to require the SFA to implement controls to ensure that all schools follow the approved counting procedures, such as through the correct implementation of the annual required onsite review process. Require the State agency to verify the SFA has correctly implemented the procedures.

#### **FNS Response.**

FNS concurred with Recommendation No. 4.

#### **OIG Position.**

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed.

# **General Comments**

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## **No Procedures to Prorate All Interest Income to the Food Service Fund**

The SFA did not have policies or accounting procedures in effect to credit the school food service account with its prorated share of interest earned for the time its funds were deposited in the district's general funds. The SFA was not aware of the Federal definition of revenue<sup>17</sup> that shows a prorated share of earnings from investments should be credited to the school food service account. (Once funds were moved from the district's general accounts to the school food service account, they earned about \$17,328 of interest income during the 2001/2002 school year.) Because the SFA historically did not charge the school food service account for indirect costs (i.e., electricity, gas, janitorial service), we are not questioning any costs for interest income due to the school food service account. We noted that if the SFA immediately credited the State agency reimbursements to the school food service account, then interest income earnings would be properly credited to the school food service account (see Finding No. 2).

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<sup>17</sup> 7 CFR 210.2.

# ***Scope and Methodology***

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Our review primarily covered NSLP/SBP operations July 1, 2001, to December 31, 2002, concentrating on operations since July 1, 2002. However, we reviewed records for other periods, as deemed necessary. We performed audit work at the FNS Regional office in Denver, Colorado, the Kansas State agency in Topeka, and the SFA in Lawrence, Kansas. We selected the SFA in Lawrence, Kansas, because it is one of only two Kansas SFA's with Provision 2 schools.<sup>18</sup> We performed fieldwork during the period January through September 2003.

In school years 2001/2002 and 2002/2003, there were 19 elementary schools, 4 middle schools, 2 high schools, and 1 alternative school. We reviewed NSLP/SBP claims of all 26 schools and observed lunchroom operations at 2 elementary schools, 1 middle school, and 1 high school. We performed our audit in accordance with Government Auditing Standards.

To accomplish our review objectives, we reviewed FNS, State agency, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations. We also reviewed the State agency's most recent administrative review of the SFA's NSLP/SBP operations and the SFA's corrective actions taken in response to the administrative review findings and recommendations. The following audit procedures were also performed:

- Interviewed officials from the State agency and SFA, in order to obtain an overview of their method of operation for the NSLP/SBP;
- Evaluated the SFA's procedures used to gather and consolidate monthly meal claims and whether reports were verified for accuracy;
- Evaluated edit check controls used to assure the reasonableness of claims for reimbursement when daily meal counts, by category, exceeded average daily attendance;
- Reviewed the SFA's accounting system, which included a review of program funds and interest on those funds;
- Analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school years 2001/2002 and 2002/2003; and

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<sup>18</sup> A Provision 2 school serves meals to participating children at no charge, which may be a good alternative for schools with a very high percentage of children eligible for free and reduced-price meals. Provision 2 reduces application burdens to once every 4 years and simplifies meal counting and claiming procedures by allowing a school to receive meal reimbursement based on claiming percentages.

- Reviewed the SFA's procedures for issuing Requests for Proposal and contracts.

## ***Exhibit A – Summary of Monetary Results***

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Exhibit A – Page 1 of 1

Finding No.	Description	Amount	Category
1	SFA Did Not Timely Submit Claims for Reimbursement	\$141,600	Underclaim <sup>19</sup>

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<sup>19</sup> FNS personnel stated their opinion that the amount does not represent an underclaim because the amounts (two claims) in question were not payable to the SFA under FNS policy and requested OIG to remove exhibit A from the report. However, OIG noted that during our audit the State agency authorized payment of the October 2001 claim for \$141,600 after the SFA submitted a claim, but denied a second late-filed claim for \$85,600. Therefore, OIG believes that under its reporting policies, the \$141,600 is most accurately shown as an underclaim.

## Exhibit B – FNS Reply to Official Draft

Exhibit B – Page 1 of 1



United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

Mountain  
Plains  
Region

1244 Speer Boulevard, Suite 903  
Denver, Colorado 80204-3585

Reply to  
Attn of: MPSN-200

MAR 11 2004

Subject: Audit No. 27010-14-KC, National School Lunch Program –  
Unified School District 497, Lawrence, Kansas

To: Dennis J. Gannon  
Regional Inspector General for Audit  
8930 Ward Parkway, Suite 3016  
Kansas City, Missouri 64114

We concur with Recommendation Nos. 1, 2, 3 and 4.

We note that the report also includes Exhibit A, Summary of Monetary Results, where the sum of \$141,600 is cited as an underclaim. This figure represents the dollar value of the school district's reimbursement claim for October, 2001. As the report notes, this reimbursement claim was not submitted timely by the SFA to the SA, and therefore the Food and Nutrition Service (FNS) noted that the amount cited was not liable for payment to the district under USDA-FNS policy and guidance. The State agency, however, under provisions of this same FNS policy and guidance, decided to grant the district's request for a "one-time exception" to the claim reporting deadline requirements, so as to permit the SA to pay this claim, which it was otherwise not liable to pay. While we do note that the narrative report does not require any action to be taken in reference to this monetary amount, we take issue with the inclusion by OIG of this finding as a monetary finding. We maintain that this was a programmatic matter, not a financial finding. The State's action was fully, and correctly, within its purview.

If you have any questions, please contact Joe Fisher at (303) 844-0354.

A handwritten signature in cursive script, appearing to read "Darlene Sanchez".

DARLENE SANCHEZ  
Regional Director  
Special Nutrition Programs

